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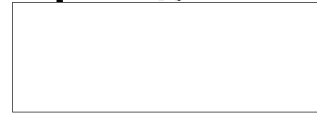
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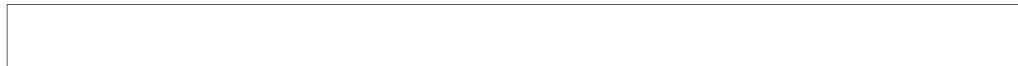
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ARGENTINA: Regime Under Pressure

As the Democratic transition unfolds, President Bignone is caught in a squeeze between increasingly aggressive civilian groups and a military institution concerned that it will be called to account. [redacted]

Human rights groups last month successfully challenged a government ban by staging a large demonstration to demand an accounting of persons who disappeared in the mid-1970s campaign against alleged subversives. These demands have been strengthened by the recent discovery of unmarked mass graves in Buenos Aires that contain the bodies of at least some dissidents whom the government claims were killed in clashes with the police during the period. [redacted]

The press also has exposed financial corruption touching many top military leaders. In addition, labor groups--anticipating new economic policies following recent IMF negotiations--have threatened to strike later this month if growth-oriented programs are abandoned. [redacted]

The junta of military service chiefs now is widely believed to be exercising tighter control over Bignone. It has responded to the media attacks by closing three periodicals. [redacted]

//Army commander Nicolaides, who used recent command changes to solidify his support, is in a better position to protect military interests and, if necessary, dictate to Bignone. [redacted]

Comment: The series of scandals and demands has undermined Bignone's efforts to win civilian support. At the same time, the military continues to back him for lack of an attractive alternative. [redacted]

Bignone still appears to have some time, but he will have to reassert himself and begin to reconcile the increasingly antagonistic civilian and military interests. If Bignone fails, coherent policymaking will become impossible, and neither group would have much further use for him. [redacted]

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UPPER VOLTA: Government Overthrown

The junior officers and enlisted men who overthrew Colonel Zerbo's moderate two-year-old regime yesterday probably will not radically change Upper Volta's pro-Western orientation.

Less than a dozen people were killed in early morning fighting, and calm returned to the capital by midmorning. The approximately 550 Americans in Upper Volta reportedly are safe.

According to Radio Ouagadougou, Upper Volta's fourth coup since independence from France in 1960 was promoted by severe economic problems, mounting corruption, and repression. The new "Provisional People's Salvation Council" will rule until the formation of a new government, but its membership has not been announced. It has made few pronouncements other than that it will honor all foreign obligations and that individual liberties will be guaranteed.

US Embassy reporting says that disgruntled junior officers inspired the enlisted ranks to revolt and that President Zerbo has been arrested along with several members of his regime.

Comment: The new regime may well include some left-leaning officers with ties to radical labor activists or Ouagadougou's clandestine Communist Party. Upper Volta has traditionally strong Western ties, and policy changes probably will not be so broad or abrupt as to risk alienating France, Upper Volta's chief benefactor, or the US, the country's main source of food aid.

The new government will face tough economic problems in the coming months and could turn to Libya or the Soviets for assistance, particularly if Western aid is deemed insufficient. Upper Volta's moderate, pro-Western neighbors--Ivory Coast, Niger, and Togo--will watch the situation closely for fear Libyan and Soviet activities will increase as they did in Ghana.

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GREECE: Withdrawal From NATO Exercise

//The decision in Athens to pull out of NATO exercise "APEX-Express"--due to the refusal of NATO to include the island of Lemnos as a target site--threatens cancellation of the monthlong exercise in northern Greece scheduled to start on Wednesday. The US Mission to NATO believes there is little chance the Greeks will reverse their decision at a meeting of the Defense Planning Committee today.//

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Comment: //The Papandreou government probably was hoping that the inclusion of Lemnos in the exercise area would support the Greek claim of a legal right to militarize the island. Although the 1923 Treaty of Lausanne set forth the demilitarization of Lemnos and several other Aegean islands, the Greeks hold that the 1936 Montreux Convention overrides the earlier document; the Turks dispute this contention. NATO military authorities presumably rejected Lemnos to avoid entanglement in the Greek-Turkish dispute, despite the heavy political and financial costs that cancellation of the exercise would entail.//

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IRAN-IRAQ: Iranian Units Cross Border

Yesterday Ayatollah Khomeini's representative on the Supreme Defense Council announced an Iranian advance of nearly 10 kilometers into Iraq, and Iraq publicly admitted an Iranian penetration of 5 kilometers. Heavy fighting continued yesterday.

Comment: Tehran almost certainly ordered the border crossing, but this tactical thrust probably does not represent a renewal of serious attempts to invade. Without major reinforcement Iran probably cannot make significant gains on the Doveyrich River front. By taking even small parts of Iraqi territory, however, Iran can claim a victory and keep pressure on the Iraqi regime.

TURKEY: Referendum Results

//The ruling military council's draft constitution was receiving a 90-percent approval rate in the referendum held yesterday. The generals were expecting about 80 percent of the voters to ratify the document. Former party leaders--who will be barred from politics for the next 10 years--had hoped for a slimmer margin to signal the military leadership to loosen its grip on the political system.//

Comment: //The overwhelming approval rate clearly is a vote of confidence for General Evren, who now automatically assumes the presidency, and confers legitimacy on the generals' reform program, which aims principally at invigorating state authority and restricting individual freedoms. The mandate might open the way for new political conflicts, however, if it emboldens the military council and the new President to tighten their hold on the political system. In any event, the referendum paves the way for the ruling council to promulgate laws governing political parties and elections next spring, after which it probably will schedule parliamentary elections for either the fall of 1983 or the spring of 1984.//

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USSR: Anniversary Speeches

The speeches yesterday by President Brezhnev and Defense Minister Ustinov, which commemorated the 65th anniversary of the Bolshevik Revolution, expressed confidence the USSR possesses sufficient military might and resolve to protect itself. The same theme was struck in a *Pravda* article yesterday. Brezhnev noted the correctness of the Soviet pledge not to be the first to use nuclear weapons.

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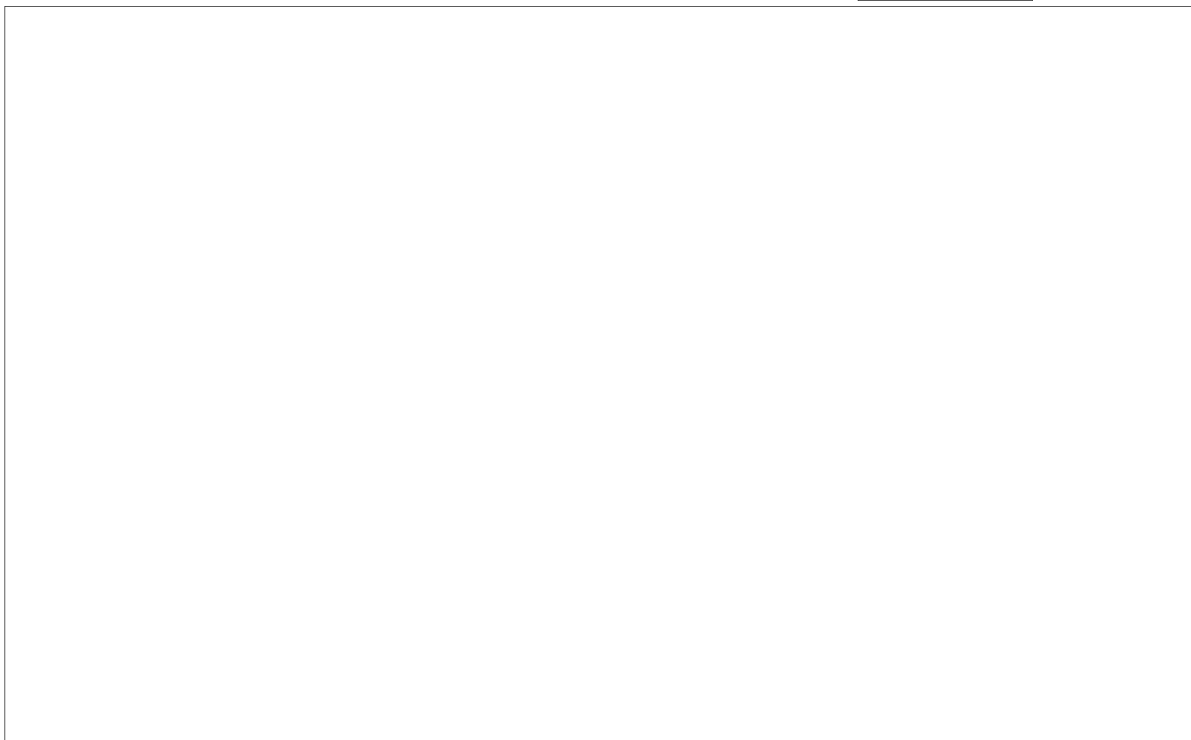
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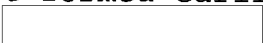
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GUATEMALA: Steps Toward Elections

President Rios Montt has announced he will issue decrees in March laying the groundwork for a constituent assembly election. The decrees will be designed to reform the electoral process, alter guidelines for the organization of political parties, and outline steps toward the restoration of an elected government. The Council of State, which the President formed earlier this year, will draft the decrees. 

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Comment: //The announcement of some movement toward elections probably will force the major political parties to mute their public skepticism of Rios Montt's commitment to constitutional rule. The President does not consider the existing political parties to be representative of Guatemalan society, and by delegating the decree drafting to the Council of State, which the parties have declined to join, he continues to exclude them from formal participation in the government. The decree law probably will further advance Rios Montt's incorporation of the country's Indians into the political process, and the parties will not be able to oppose the decrees without appearing to be against either a return to the democratic process or Indian participation in politics.// 

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ZAIRE: Cabinet Shuffle

President Mobutu on Friday shuffled his cabinet for the second time this year. The most significant changes were the appointment of Ambassador to Belgium Kengo Wa Dondo as Prime Minister, Ambassador to the UN Kamanda Wa Kamanda as Minister of Foreign Affairs, and university professor Nyembo Shabani as Minister of Economy, Commerce, Industry, and External Trade.

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Comment: Mobutu has a longstanding practice of frequently shifting senior government and party officials. He probably wanted to make these changes before next month, when there will be a major party conference and the beginning of delicate negotiations with the International Monetary Fund. The new cabinet, which on the whole is more talented and competent than the last one, probably portends no major shift in Mobutu's pro-Western foreign policy, although Kengo and Kamanda are likely to counsel somewhat more independence from Washington.

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PERSIAN GULF: Oil Price Cut Threatened

//Kuwait's Oil Minister told the US Ambassador last week that the Gulf Cooperation Council agreed to cut oil prices by up to \$4 a barrel following the OPEC meeting in December unless Iran, Libya, and other OPEC members accept production quotas and price differentials that support the cartel's \$34 per barrel benchmark. The minister warned the Council would not stop at a \$4 per barrel price cut if such a move failed to force compliance by other OPEC members, and asserted that the Arab producers in the Persian Gulf could withstand falling oil prices better than other exporters or major consuming countries.

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Comment: //The Arab producers probably will defer price cuts at least until they have tested the market next spring. Demand for OPEC oil already has rebounded by nearly 2 million barrels per day and is likely to hold at that level through early 1983.

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YUGOSLAVIA: Impact of Austerity Measures

Popular reaction to the austerity measures enacted last month continues generally muted, but the US Consulate in Zagreb reports considerable resentment among Slovenes and Croats to travel and customs restrictions. The \$80 deposit required for foreign travel has led to a substantial drop in trips abroad. Chaos resulted initially at border checkpoints as returning Yugoslavs, unaware of the \$24 limit on imports, waited in long lines and reluctantly discarded excess goods. Gasoline and oil prices were increased last week by an average of 12 percent, in part the result of the 20-percent devaluation in October. [REDACTED]

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Comment: Popular acceptance of belt tightening depends on whether the government can demonstrate progress in resolving economic problems. Conditions almost certainly will deteriorate, however, before any improvement is in sight. The Slovenes and Croats--who most frequently shop in Western countries--are the first to be hurt by the restrictions, but all Yugoslavs will soon feel the pinch. [REDACTED]

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Special Analysis

NATO: Defense Budget Prospects

//Defense budget proposals for 1983 suggest that most of the Allies will show little or no real growth in defense spending and that many may suffer a decline. Continuing economic stagnation has forced most Allies to propose austerity budgets for 1983, which will erode military capabilities and jeopardize many modernization programs. In 1982 nearly half the NATO members had planned on meeting the NATO goal of 3-percent real growth in defense spending, but several failed to do so.//

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//The governments are already making cuts, chiefly in operations and maintenance, training, and personnel. Some countries have severely restricted pilots' flying time, curtailed the number of days at sea and the steaming speeds of ships, and limited the training of some ground forces.//

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//Several NATO states also have cut or are discussing cutting large numbers of personnel. Most countries have tried to preserve major procurement programs but have had to stretch out purchases.//

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West Germany and Italy

//The defense budget proposed by the new government in Bonn represents a 4.8-percent increase before inflation. Defense inflation tends to run higher than general inflation, however, and there probably will be no real growth in 1983 and possibly another year of real decline.//

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//Although the new Minister of Defense criticized the previous government for cuts in maintenance and training, he is unlikely to be able to restore them. The government also is discussing reducing benefits for conscripts and stretching out or canceling some expensive procurement programs.//

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//An intense debate is taking place in Italy, where the military has been criticized for its inefficiency. The Defense Minister recently said Italy may develop a smaller, better armed professional force.//

//Preliminary information indicates defense spending may actually decline. Budgetary restraints are likely to cut the Army by about 30,000 men, roughly 9 percent of the force, and procurement as well as operations and maintenance also will be cut.//

Other Allies

//The new Dutch Government has reduced its planned real increase in defense spending from 3 to 2 percent over the next three years, well below the NATO goal but much better than most. Even so, all services have restricted training significantly.//

//The Navy will spend less time at sea and limit its steaming speeds. The Air Force will curtail flying hours. The armed forces also have had to make some personnel cuts and stretch out several procurement programs, including purchases of F-16 fighters, frigates, and air defense missiles.//

//Canada has announced a US \$187 million reduction in defense expenditures through mid-1985 because of savings from using a lower, less accurate estimated rate of inflation for budget projections. Ottawa claims, however, that it will meet the 3-percent goal throughout this period.//

//The government is going to use the projection for inflation of the Ministry of Finance for the government as a whole, rather than the higher but more accurate one previously used by the Ministry of Defense. This statistical sleight of hand, while giving the appearance of meeting the 3-percent goal, probably will result in a budget shortfall.//

//Ottawa is likely to compensate by reducing some operations and maintenance expenditures, now roughly 75 percent of the defense budget. Acquisition of the CF-18 fighter aircraft and new frigates should survive intact but may be delayed.//

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//Only the UK and Norway are likely to attain real growth of 3 percent. Although British plans call for less than a 3-percent increase, the costs of replacing losses in the war--which are not being charged to the defense budget--will, under NATO rules, be counted in total defense spending. Norway has recently drawn back from its previous projections of 4-percent growth, but its increase will still probably be in the 3- to 3.5-percent range.//

//The Danish Government is under increasing pressure to cut defense spending, but it probably will hold to a multiparty agreement calling for 1.5-percent real growth over the next three years. The 1.5-percent agreement serves chiefly to demonstrate Denmark's continued support for NATO.//

//Portugal, Greece, and Turkey are stalled in their efforts to increase defense spending as a result of high inflation rates and generally weak economies. All three probably will have real declines in 1983, although there is a slim chance Turkey may be able to achieve a slight increase. Belgium will see a decline of about 9 percent by the end of 1983.//

French Defense Costs

//France does not belong to the integrated NATO command, and it thus is not bound by the 3-percent pledge. French defense expenditures grew substantially throughout the 1970s, but the Socialist government has now decided to make dramatic cuts. It is deleting nearly a half billion dollars--about 2 percent of the budget for 1982--in payment credits and almost \$2 billion more in program authorizations.//

//The Ministry of Defense has proposed an increase for 1983, excluding pensions, that is roughly equal to the government's projection of inflation. Even so, higher costs virtually guarantee the first real decline in defense spending in 14 years. Conventional forces will be particularly hard hit, with delays in the procurement of aircraft, armored vehicles, tanks, and missiles.//

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//Although the French also have cut back on most operations, strategic forces will remain largely untouched. A five-year draft Military Planning Law for 1984-88 probably will result in cuts of some 50,000 personnel.//

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Outlook

//Most NATO countries will be reluctant to increase defense spending significantly as long as their economies remain in the doldrums. Although defense budgets generally are growing faster than the overall budgets, real defense spending is not expanding fast enough to fund major NATO force improvement programs. Even with economic recovery, compensating for the current cuts and shortfalls would require a level of defense spending that would be politically impossible for most West European NATO countries for some time to come.//

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